ANNUAL REPORT 2004

CEAPRO

Nature Enhancing Life®

Highlights

In 2004, Ceapro advanced in all areas of business. Here are some of the highlights:

- Introduced two new active ingredients to the cosmetics and personal care markets
- Developed seven new therapeutic product concepts for the Japanese veterinary market
- Expanded market development for *CeaProve*™
- Increased manufacturing plant capacity
- Completed new research and development agreements
- Received ASTech Award for Outstanding Commercial Achievement

THE MEANING BEHIND THE CEAPRO LOGO

CEAPRO'S LOGO IS CREATED USING THREE CORE COLOURS - GREEN, GOLD, AND BLUE. GREEN REPRESENTS GROWTH AND NATURE; GOLD RELATES TO THE GOLDEN KERNELS OF GRAIN AT HARVEST, AND BLUE SYMBOLIZES THE RIVER OF LIFE.

Corporate Profile

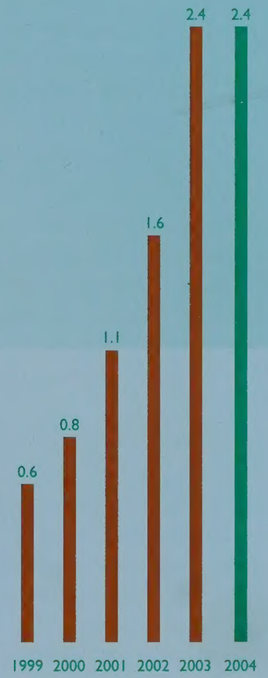
Since 1997, Ceapro has dedicated itself to the discovery and commercialization of new technology that captures nature's vitality to enhance the health of humans and animals. Ceapro has become one of the world's leading innovators, formulators, and manufacturers of active ingredients, botanical extracts, and therapeutic products.

Ceapro is also gaining recognition in the field of diabetes screening, diagnosis, and monitoring with its breakthrough *CeaProve*™ technology.

Ceapro is

- Innovation
- Outstanding Technology
- Commercialization
- Global Partnerships

Revenue
($ millions)



Origins of the *CeaProve*™ Logo

The *CeaProve*™ logo encompasses elements of the Ceapro logo with the use of the blue omega as the focus. A hummingbird was incorporated into the logo because the bird has the highest blood sugar levels of all animals and is a globally recognized symbol of diabetes. From Ceapro's perspective, a hummingbird also captures the precision, balance, and control afforded by CeaProve™.

Letter To The Shareholders

This past year, 2004, was the culmination of Ceapro's start-up phase. Our successes over the last five years include:

- Quadrupling revenues
- Increasing sales volumes by a factor of five
- Introducing two new products and ten prototypes
- Achieving profitability for 2002 and 2003

In 2004, Ceapro continued to expand its markets, product offerings, and partnerships, while continuing to discover and develop important new technologies, notably with *CeaProve*™, one of our most important assets.

Here are some of the exciting activities of the past year:

CeaProve™

CeaProve™, our diabetes product, continues on track and we anticipate initial product sales in 2005. Over the past year, we defined our markets to position *CeaProve*™. Through our pre-market activities, we discovered that the market potential for *CeaProve*™ reaches beyond screening and diagnosis to encompass prevention and disease management.

The pre-marketing activities for *CeaProve*™ included field trials with health-minded Alberta companies to complement previous research within the Aboriginal community. We built alliances with regional health authorities, the Canadian Diabetes Association, Alberta Health and Wellness, and the Canadian pharmacy distribution network.

CeaProve™ was introduced to new global markets in Europe, South America, and Asia. With a view to international market development of *CeaProve*™, we expanded our patent protection to cover the territories where we expect to gain major markets.

Enhanced Production Capacity

At the start of 2004, Ceapro faced operational challenges to meet the volume demand for active ingredients while striving to expand our markets and to extend our product portfolio. To fulfill these needs and to plan for the future, Ceapro expanded its manufacturing capacity. Two new process tanks were installed to increase production capacity, to improve efficiency, and to enhance margins. In addition, the new equipment will allow Ceapro to develop more products for the active ingredients market.

Active Ingredients

On a global basis, the top 10 personal care and cosmetics companies have been introduced to Ceapro's active ingredients; cosmetic laboratories are working on new functional products that use our technology. We look forward to exciting new product introductions in 2005.

Market feedback from Europe and Asia resulted in the reformulation of *Drago-Beta-Glucan*, a product distributed by Symrise GmbH & Co. KG, of Holzminden, Germany, one of Ceapro's major distributors. Sales of beta glucan were lower, largely due to one customer withdrawing a product line from the market, and other customers awaiting the introduction of a new and enhanced beta glucan. The new product was introduced in the fall of 2004.

With a view to expanding markets for active ingredients, Symrise and Ceapro have agreed to the development of a suite of new oat-based products, and for the first time, to develop products from plants other than oats. We expect the first of the new products to be released in mid-2005.

Veterinary Therapeutic Products

We have entered into new agreements with Daisen Sangyo Co. Ltd. of Osaka, Japan to develop new products for our *Dr. Redmond's Selection* brand to treat and prevent specific skin diseases. In addition, clinical tests were conducted in the European Union to validate product claims before market introduction. We are now poised to capture a share of the Asian veterinary markets with new distribution agreements, an essential component of Ceapro strategy.

In Canada, we have a new partnership with Aventix Animal Health Corp. and are planning the launch of three products under the *Avena Sativa* brand. We are also pleased to announce our new Australian distributor, PharmTech Pty Ltd., who are distributing the *NaturOat*™ product line.

New Research and Development

We have reached new research and development agreements in the areas of active ingredients and veterinary therapeutic products. These new product agreements are critical in securing Ceapro's future and ensuring that we have established customers and markets to expand the use of our technology.

Ceapro has earned the recognition of Canada's business community; we expect this recognition to draw investor attention. Our new website, **ceapro.com**, was launched with the objective of enhancing investor and public relations by providing timely and accurate information about our products and activities.

Mark Redmond
President and Chief Executive Officer

Diabetes Screening and Management with *CeaProve*™

We know that lifestyle modifications can delay or prevent the onset of Type 2 Diabetes. We also know that with early detection and appropriate treatment, the associated complications of Type 2 Diabetes can be prevented or delayed.

~Ms Freda Badry, Regional Director for Northern Alberta and the NWT, Canadian Diabetes Association

Tackling Diabetes with *CeaProve*™

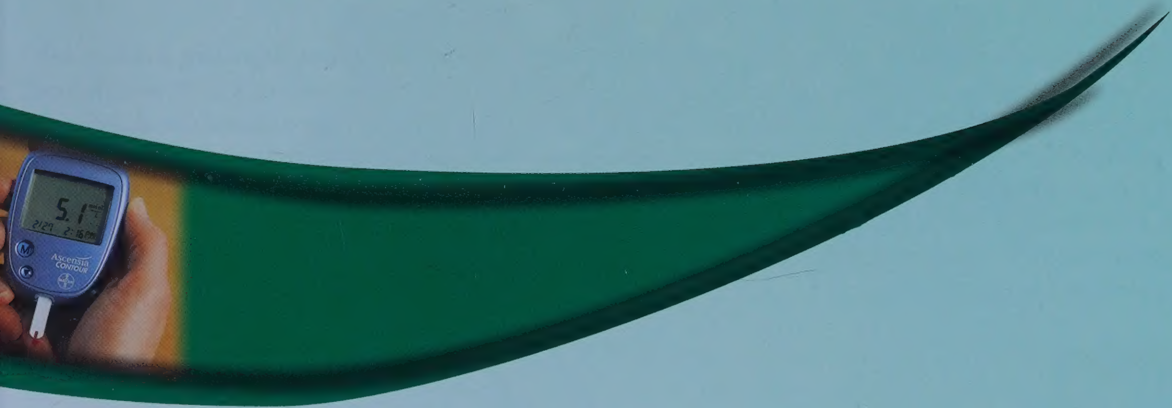
Diabetes is a growing global epidemic. Its many serious complications range from heart disease to blindness, kidney failure, and amputation. The World Health Organization estimates the number of people with diabetes will more than double to 370 million by 2030.

Current North American estimates indicate that 40% of the adult population (aged 40 to 74) has pre-diabetes. Without intervention, half of these individuals will develop diabetes within the next 10 years. Therefore, early detection of pre-diabetes and early intervention are essential for the prevention of diabetes.

To enable early detection and intervention of diabetes and pre-diabetes, Ceapro has developed *CeaProve*™, a rapid, accurate, and easy to use diagnostic solution.

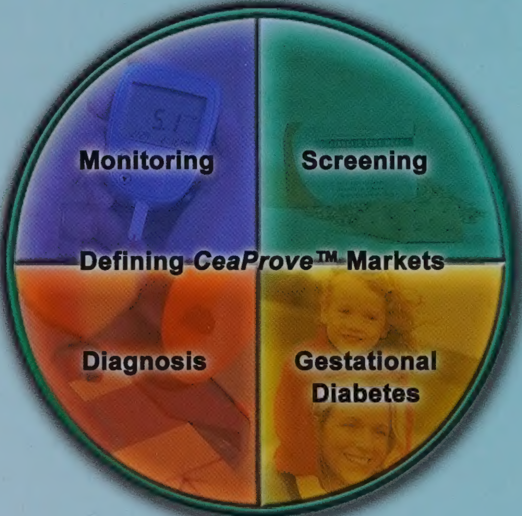
"MARKET OPPORTUNITY IN RELATION TO SCIENTIFIC OPPORTUNITY RATES INFLAMMATION, CARDIOVASCULAR, AND GLUCOSE MANAGEMENT AS KEY AREAS FOR THE EMERGING MARKET."

~ BURRILL & COMPANY



How *CeaProve™* works

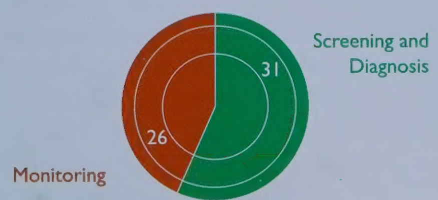
CeaProve™ consists of calibrated wafers made from a proprietary formulation of oat starch, protein, and fats, that are consumed with a glass of water after an overnight fast. A quick analysis of the blood, using one of many standard glucose meters presently on the market, provides an on-the-spot indication of elevated blood glucose levels.



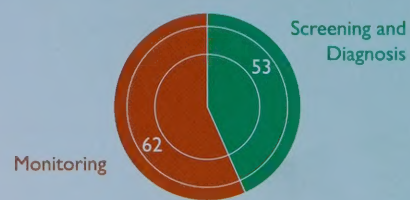
Emerging Markets

Burrill and Company[1] has identified a new market called Theranostics, a union between therapy, dosage monitoring, and diagnosis. Burrill reported an increased demand for diabetes products in this emerging market. *CeaProve*™ is positioned to take advantage of this significant new opportunity.

Number of Potential Annual *CeaProve™* Tests ($ millions) in U.S. and Europe



Number of Potential Annual *CeaProve™* Tests ($ millions) in China, India, and Japan



1. Burrill & Company is a Life Sciences Merchant Bank based in the United States.

CeaProve™ Performance Evaluation

Clinical trials conducted across Canada established *CeaProve*™ as more effective at diagnosing diabetes and pre-diabetes than the current standard diabetes test. Ceapro also performed field trials in three different focus groups: Aboriginal, Corporate Health, and Public Health. During 2004, Ceapro tested the application of *CeaProve*™ in the workplace environment of two major companies, Waiward Steel Fabricators Ltd. and Lafarge. Waiward is one of Canada's largest and most modern steel fabricators. In 2004 Waiward was recognized as one of Canada top 50 Best Managed Companies; Lafarge is a world leader in building materials. Both companies strongly support healthy workplace initiatives and encouraged their employees to participate in the screening trail.

We took the opportunity to have our whole Company screened, from sales and administration, draftsmen and engineering, to shop production. Even I took the CeaProve™ test and after discussing my results with my doctor decided it was time to 'smarten up' and pay more attention to my health and the risk of diabetes.

~ Mr. Don Oborowsky
President
Waiward Steel.

LAFARGE

"With a great number of us personally knowing somebody who suffers from diabetes our decision to participate in the screening was very welcomed. One of our administrative people found out that they were diabetic and has since seen a physician and is being treated for diabetes.

~ Mr. Larry Diduck,
Vice-President and General Manager,
Lafarge

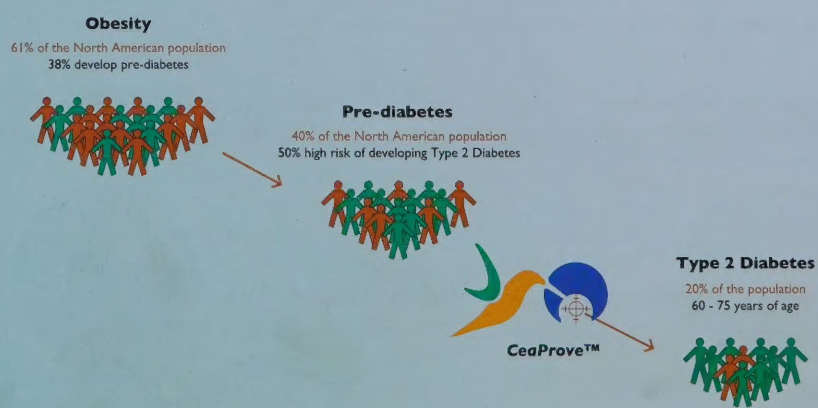
CeaProve™ corporate trials confirmed that *CeaProve*™ offers employers a fast and effective tool to ensure that employees are healthy.

What is Pre-Diabetes?

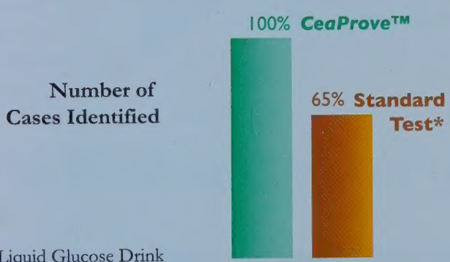
Pre-diabetes is a condition where blood glucose levels are higher than normal, but not high enough to be diabetes. People with pre-diabetes are at a 50% higher risk for heart disease and stroke.

Clinical studies have confirmed that intervention at the stage of pre-diabetes may reverse the development of diabetes. Intervention may take the form of diet, exercise, or drug therapy.

Using *CeaProve*™ enables early detection and early treatment; helping to stop diabetes.



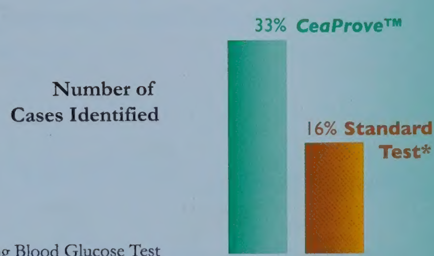
CeaProve™
Clinical Testing for Pre-Diabetes



* Liquid Glucose Drink

In clinical trials comparing *CeaProve™* to the standard test using a glucose drink, *CeaProve™* correctly identified all subjects with pre-diabetes whereas the standard test identified only 65% of subjects at risk for pre-diabetes. *CeaProve™* has additional advantages compared to the liquid glucose drink, including simplicity, flexibility of use, shorter test time, increased compliance, and no adverse reactions.

CeaProve™
Workplace Testing for Pre-Diabetes



* Fasting Blood Glucose Test

In workplace field trials comparing *CeaProve™* to the standard fasting blood glucose test, *CeaProve™* identifed 33% of the subjects tested to be at risk for pre-diabetes, twice the number of the standard test. These tests demonstrate clearly the superiority of *CeaProve™* over the standard tests.

Active Ingredients

Ceapro's active ingredients have unsurpassed quality with superior science. This combination strengthens Symrise's product line which supplies quality products to all of the Top 10 cosmetic and personal care companies in the world.

~ Dr. Klaus Stanzl, President Cosmetics, Symrise Inc.

Ceapro's unique extraction technology creates unsurpassed active ingredients from special oat varieties. With distinct formulation and performance advantages, our active ingredients – oat beta glucan, colloidal oat extract, and oat oil are used in the manufacturing of the highest-quality medical, veterinary, personal care and cosmetic products worldwide.

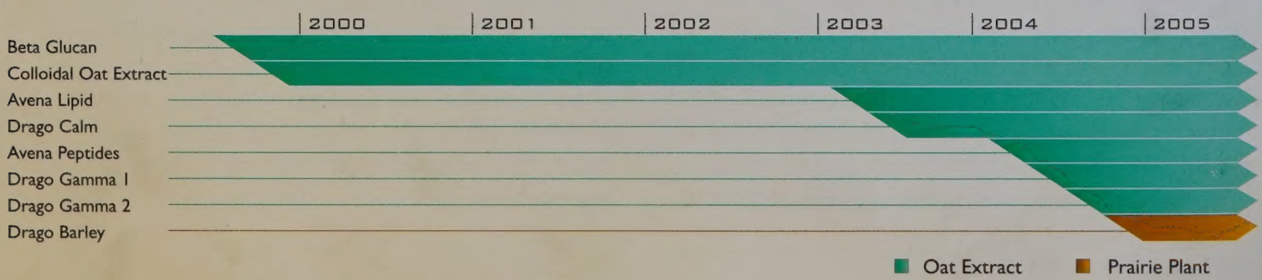
Symrise, one of our major customers, distributes Ceapro's natural active ingredients to the world's leading personal care and cosmetic companies.

Growth in emerging markets

Eastern Europe, Asia-Pacific, and African cosmetics and toiletries markets are expected to register high growth rates. The primary drivers for this trend are higher disposable incomes, high population growth, and increasing awareness among consumers. In order to leverage this opportunity, Ceapro is working with Symrise and Daisen Sangyo to develop new products with features and benefits designed especially to meet the needs of emerging markets.

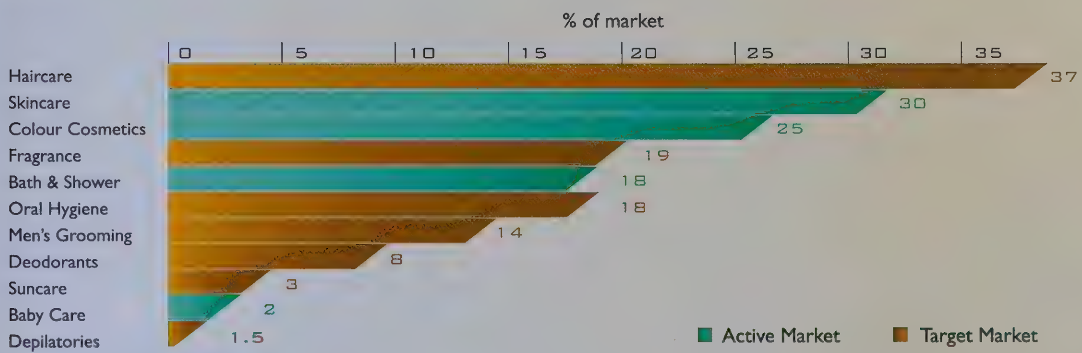
Expanding Product Pipeline

Since Ceapro introduced oat beta glucan and colloidal oat extract in 1999, we continued, and will continue, to expand our product pipeline to include additional products from oats and new products from other Prairie plants.



Significant Market Opportunities

The cosmetics and personal care markets cover a broad spectrum of product categories ranging from haircare to depilatories. Ceapro extracts are already found in four of the major categories (skincare, colour cosmetics, bath & shower, and baby care) and we are targeting further market expansion, especially into haircare and oral hygiene.



The Healing Power of Oat Avenanthramides

These photographs illustrate the statistically significant, rapid relief from allergy symptoms following avenanthramide treatment.

After 30 minutes, itching was reduced by 50%, after one hour redness was reduced by more than 85%, and after two hours the wheal area (redness circle) was reduced by 90%. These properties are being incorporated into an expanding line of consumer products and over-the-counter medications.

New Technologies

Ceapro is rich in technology, a benefit that necessitates careful and informed discipline in the selection of projects for development.

~ Dr. Mark Redmond, President and CEO, Ceapro Inc.

Drug Delivery System

Ceapro is developing its versatile beta glucan technology into a drug delivery system with uses in topical, injectable, oral, and intra-nasal applications. The U.S. market for drug delivery technologies is expected to increase from $19 billion in 2000 to more than $41 billion by 2007.

Ceapro is conducting research on the use of beta glucan to perform an active role in the delivery of compounds including therapeutic agents, vaccines, flavours, and fragrances. These applications range from drug delivery for wounds and therapy to skin care treatments that reduce the signs of aging.

Advantages of beta glucan for drug delivery:

- Delivers active molecules to be released quickly or slowly over defined periods
- Entraps small molecular weight compounds including aromas, essential oils, or therapeutic agents
- Forms a film at uniquely low concentrations (<1%)
- Laminates with other films

Oat beta glucan is an amazingly multifacetted active ingredient, proven scientifically to activate tissue repair, stimulate immune function, and control moisture in skin. Ceapro's partners have proven the effectiveness of beta glucan in the management of partial thickness burns, shallow abrasions, and laser treatment.

The photographs illustrate the beta glucan delivery system. Adding a drop of water to the beta glucan film in the upper panel results in the film dissolving rapidly and the beta glucan absorbing into the skin. Elapsed time < 5 seconds.

Patents and Intellectual Property

Ceapro's strategy is to protect its products through patents filed in our major markets including the U.S., Europe, and Asia. Our patent portfolio protects our core processes and products produced through those processes in addition to formulations and methods of using formulations to treat and diagnose specific maladies.

Value-Chain Model

Ceapro's ability to innovate and deliver is linked to our global value-chain of partners. Our partners are leaders in their sectors, internationally known and recognized for their expertise and market presence. We work alongside our partners to help them understand the benefis of our technology.

IGER - Institue of Grassland and Environmental Reseach (Wales) Svaloff Weibull (Sweden) Agricore (Canada)	Univ. Alberta (Canada) Univ. Toronto (Canada) Univ. Saskatchewan (Canada) Univ. Nottingham (England) Alberta Agriculture Food and Rural Development Symrise Inc. (Germany) Daisen Sangyo Co. (Japan) Zenoaq (Japan)	Oat Services (England) English Bay (Canada)	Symrise Inc (Germany) Daisen Sangyo Co (Japan, Asia) Zenoaq (Japan) Aventix (Canada)	Multi-national corporations/ local manufacurers

Veterinary Therapeutic Products

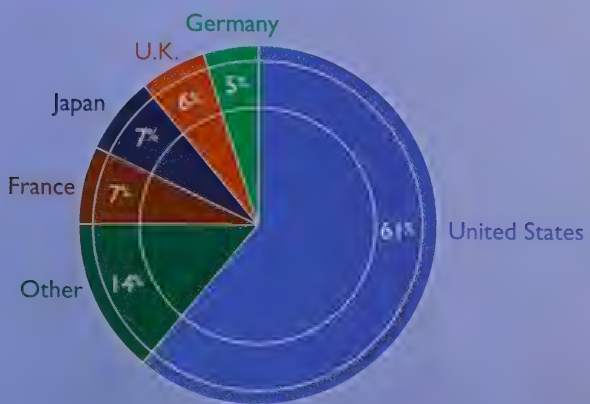
We are proud to be working alongside Ceapro to bring the technological advancements found in the Avena Sativa skin care line to Canadian veterinarians and their clients' pets.

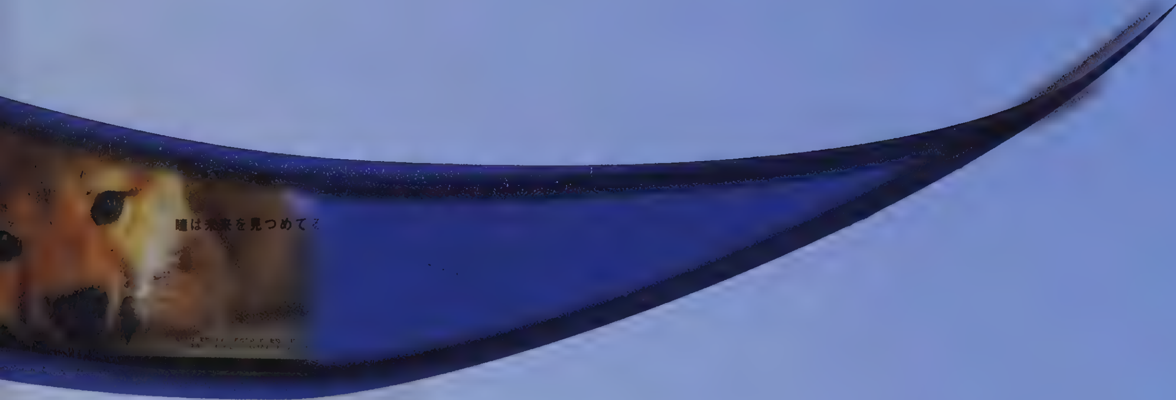
- Mr. Vince Bellavia, President, Aventix Animal Health

People love their pets. In the United States alone statistics indicate that there are approximately 65 million dogs and that number is growing. Companion animals of all kinds continue to be an important part of the family; discerning owners want the best health care products.

Ceapro has created a full spectrum of animal health products available exclusively through veterinarians. *Oat Shampoo, Ear Cleanser,* and *Dermal Complex* help to reduce the incidence of skin and ear disease and to minimize the need for active treatment.

Animal Health Markets





Daisen Sangyo Co. Ltd. and Zenoaq have been Ceapro's Japanese partners since 1997. Through this partnership, Ceapro's animal health products, branded as *Dr. Redmond's Selection*, have grown to be the market leaders in veterinary shampoo and ear cleansers.

Ceapro entered a new 10-year distribution agreement with Daisen Sangyo to access the animal health markets of China, Taiwan, and South Korea. Both companies are working together to open the markets and expect the first Asian product launches to take place in 2005.

In Australia, the *NaturOat*™ brand of veterinary products is now distributed by PharmTech Pty Ltd. Incorporated in 1998, PharmTech was formed by a number of experienced veterinary sales and marketing personnel to supply the Australian market with high quality products not available through multi-national companies.

In Canada, Ceapro has aligned strategically with Aventix Animal Health Corp. to launch our products under the *Avena Sativa* brand. Established in 2000, Aventix is a Canadian animal health company serving the companion animal market and is dedicated to bringing veterinarians the best and latest in products.

Our Greatest Asset - Our People

The talents and hard work of the Ceapro team have made Ceapro a profitable biotechnology enterprise and a company being recognized locally and globally.

~ Mr. Ed Taylor, Chairman, Ceapro Board

We know that Ceapro's success depends on our people. From the operators to the management, each person contributes enthusiasm and knowledge in helping our Company to grow. One of our key strengths is customer service and support, for we believe in standing alongside our customers and in building strong relationships. That is the foundation of our business.

Ceapro Management Team

Dr. Mark Redmond, President and CEO
Michael Andrews, Financial Advisor
Ken Pilip, MSc, PEng, Co-Founder and Senior Adviser
David Fielder, MSc, Director, Technical Services
Shawn McMillan, CA, Controller (2005)
Kristine Cotter, CMA, Controller (2004)
Laurie Lanuke, Manager, Customer Service and Logistics
Darren Schmidt, Plant Manager

Oleh Hnatiuk, PEng, Acting Managing Director, Ceapro Technology Inc.
Dr. Diana Shaw, Manager, Business Development for *CeaProve*™
Dr Sarah Lord, Technology Commercialization Associate

Awards

Alberta Venture Top 25 (2005)

Ranked 13th on Alberta Venture's 2005 list of 25 fastest growing companies with annual revenues under $20 million.

Alberta Venture Top 30 (2004)

Ranked 21st on Alberta Venture's 2004 list of 30 fastest growing companies.

Profit 100 (2004)

Ranked 128 in the Profit Magazine's Next 100, the definitive ranking of Canada's best and brightest growth firms.

ASTech Award (2004)

ASTech award for Outstanding Commercial Achievement in Alberta Science and Technology, in the category for companies with sales of less than $25 million. The prestigious ASTech Award is given to recognize leading Albertans for their outstanding achievements and contributions in science and technology.

The Alberta Business Awards of Distinction (2002)

Agrivalue Venture Award of Distinction. Presented to an Alberta business which has achieved commercial success in adding value in the agricultural sector.

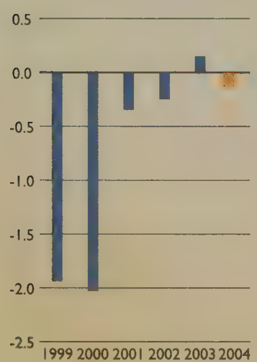
GALA Growing Alberta Leadership Award (2001)

Awarded to companies that have used creative and visionary thinking to meet a market demand in a new and unique way.

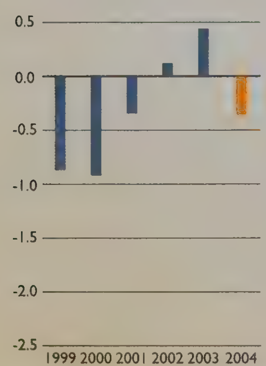
Summary of Financial Information

	1999	2000	2001	2002	2003	**2004**
Operations						
Product sales	$ 326,373	$ 808,854	$ 1,149,443	$ 1,487,188	$ 2,218,262	**$ 1,956,961**
Royalty and license revenues	298,000	-	-	114,739	206,098	**462,758**
	624,373	808,854	1,149,443	1,601,927	2,424,360	**2,419,719**
Income (loss) from other operations	(407,851)	(609,549)	(617,736)	(65,459)	221,620	**35,350**
Research and new product development expenses	(278,564)	(293,428)	(205,887)	(259,915)	(353,744)	**(302,487)**
Other income (expenses)	(182,655)	(12,918)	477,520	441,148	574,162	**(118,211)**
Income (loss) for the year	(869,070)	(915,895)	(346,103)	115,774	442,038	**(397,737)**
Cash flow						
Cash flow (used in) operations	(306,678)	(759,412)	(728,253)	(90,917)	70,571	**(92,149)**
Cash flow (used in) investing	(31,667)	(30,563)	(11,411)	(196,341)	(133,637)	**(541,660)**
Cash flow from financing activities	355,036	803,631	752,795	261,843	286,117	**481,632**
Increase (decrease) in cash	16,691	13,656	13,131	(25,415)	223,051	**(152,177)**
Financial position						
Current assets	167,414	180,570	272,589	371,836	908,124	**933,323**
Total assets	291,341	294,148	373,326	645,347	1,255,312	**1,717,820**
Working capital (deficiency)	(1,942,106)	(2,031,097)	(351,404)	(250,508)	163,382	**(132,416)**
Shareholders' equity (deficiency)	$ (1,897,833)	$ (2,390,977)	$ (1,137,304)	$ (652,969)	$ 382,230	**$ 114,066**

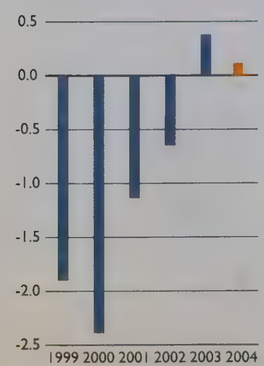
Working Capital ($ millions)



Income (loss) ($ millions)



Shareholders' Equity ($ millions)



Management's Discussion and Analysis
Management and Auditors' Reports
Financial Statements

CEAPRO
Nature Enhancing Life®

Management's Discussion and Analysis

This MD&A provides commentary on the results of operations for the years ended December 31, 2004 and 2003, financial position as at December 31, 2004 and the outlook for Ceapro Inc. ("Ceapro") based on information available as at April 6, 2005. The following information should be read in conjunction with the consolidated financial statements as at December 31, 2004, and related notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All comparative percentages are between the years ended December 31, 2004 and 2003 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Ceapro's future plans and operations as at April 6, 2005, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. You are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Vision, Core Business, and Strategy

Ceapro Inc. is incorporated under the Canadian Business Corporations Act, and its wholly-owned subsidiaries, Ceapro Technology Inc. and Ceapro Veterinary Products Inc., are incorporated under the Alberta Business Corporations Act. Ceapro is an innovation-driven biotechnology company. Our primary business activities relate to the development and commercialization of organic products for medical, cosmetic, and animal health industries using proprietary technology and natural, renewable resources.

Our products include:

- A commercial line of active ingredients, including beta glucan, avenanthramides (colloidal oat extract and *Drago-Calm*), and oat oil, which are marketed to the personal care and cosmetic industry through an exclusive agreement with our distribution partner, Symrise Inc.; and
- Veterinary therapeutic products, including an oat shampoo, an ear cleanser and a dermal complex/ conditioner, which are marketed to veterinarians in Japan, Asia, and Canada through distribution agreements with Daisen Sangyo Co. Ltd. and Aventix Animal Health, respectively.

Other products and technologies are currently in the research and development or pre-commercial stage. These new technologies include:

- *CeaProve™*, a diabetes test meal to identify Type 2 diabetes and pre-diabetes, to determine dosage levels for diabetes oral therapy, and to monitor the condition of pre-diabetics. We are working towards a Canadian product listing to make *CeaProve™* available across Canada in 2005.
- A drug-delivery platform;
- An extension to the active ingredients offering, through new protein and new cereal grain extract products; and
- An extension to the existing veterinary products line, though new therapeutic products/formulations.

Our vision is to be a global leader in developing and commercializing products for the human and animal health markets through the use of proprietary technology and renewable resources. We act as innovator, advanced processor and formulator in the development of new products. We deliver our technology to the market through distribution partnerships. Our strategic focus is to:

- Increase sales and expand markets for active ingredients;
- Develop and market additional high-value proprietary therapeutic products; and
- Advance new technology to a partnering position.

As a knowledge-based enterprise, we will also expand and strengthen our patent portfolio and build the necessary manufacturing infrastructure to become a global biotechnology company.

Our business growth depends on our ability to access global markets through distribution partnerships. Our marketing strategy emphasizes providing technical support to our distributors and their customers to maximize the value of our technology and product utilization. Our vision and business strategy are supported by our commitment to the following core values:

- Enhancing the health of humans and animals;
- Discovering and commercializing new, natural ingredients;
- Producing the highest quality work possible in products, science, and business; and
- Developing personnel through guidance, opportunities, and encouragement.

To support these objectives, we believe we have the requisite resources (intellectual and human capital) and the competitive advantages (partnerships) to exploit our technology. To fund our operations, we rely upon revenues generated from the sale of active ingredients and veterinary therapeutic products, and the proceeds of public and private offerings of equity securities, debentures, and other income offerings.

Risks and Uncertainties

Biotechnology companies are subject to a number of risks and uncertainties inherent in the development of any new technology. General business risks include: uncertainty in product development and related clinical trials and validation studies; the regulatory environment, for example, delays or denial of approvals to market our products; the impact of technological change and competing technologies; the ability to protect and enforce our patent portfolio and intellectual property assets; the availability of capital to finance continued and new product development; and the ability to secure strategic partners for late stage development, marketing, and distribution of our products. To the extent possible, we pursue and implement strategies to reduce or mitigate the risks associated with our business.

As substantially all sales are export sales to two distributors, we are dependent on those distributors to maintain and expand the volume of product sales to existing and new customers.

We have exposure to risk arising from volatility in foreign exchange rates as substantially all sales of our products are denominated in U.S. currency, while our expenses are primarily denominated in Canadian dollars. We do not currently engage in hedging or use of derivatives to reduce foreign exchange risk.

Ceapro's convertible debentures and loans payable have fixed interest rates over the terms of the obligations. Our exposure to interest rate and inflation risks are expected to be negligible as economic forecasts project a stable outlook for both interest rates and inflation in the near future.

Ceapro's share price is subject to equity market price risk, which may result in significant speculation and volatility of trading due to the uncertainty inherent in our business and the biotechnology industry. There is a risk that future issuance of common shares may result in material dilution of share value, which may lead to further decline in share price. The expectations of securities analysts and major investors about our financial or scientific results, the timing of such results and future prospects, could also have a significant effect on the future trading price of Ceapro's shares.

A variety of factors will affect our future growth and operating results, including the strength and demand for our products, the extent of competition in our markets, the ability to recruit and retain qualified personnel, and our ability to raise capital.

Accounting Policies and Critical Estimates

Our financial statements are prepared within a framework of GAAP selected by management and approved by our Board of Directors. The assets, liabilities, revenues and expenses reported in our financial statements depend to varying degrees on estimates made by management. An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain; and if different estimates that could have been used would have a material impact. The significant areas requiring the use of management estimates relate to amortization of property and equipment, the assumptions used in determining stock-based compensation and the interest rate used in determining the equity component of the convertible debentures. These estimates are based on historical experience and reflect certain assumptions about the future that we believe to be both reasonable and conservative. Actual results could differ from those estimates. We continually evaluate the estimates and assumptions.

Change in Accounting Policy

The Canadian Institute of Chartered Accountants has issued an accounting pronouncement concerning the classification of debt (EIC-122) for financial years commencing on or after January 1, 2002. Based on the pronouncement, one of the company's loans payable is classified as a current liability since the lender has the right to demand repayment within one year.

Results of Operations – Years Ended December 31, 2004 and 2003

SELECTED ANNUAL INFORMATION

The selected annual financial information presented below is derived from Ceapro's audited annual financial statements for each of the last three years ended December 31. It has been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and is denominated in Canadian dollars.

$000s except per share data	**2004**	2003	2002
Total revenues	**2,420**	2,424	1,602
Net income (loss)	**(398)**	442	116
Basic income (loss) per share	**(0.011)**	0.014	0.004
Diluted income (loss) per share	**(0.011)**	0.013	0.004
Total assets	**1,718**	1,255	645
Total long-term liabilities	**538**	128	676

In 2004, income from operations declined 84% due to a decrease in the gross margin resulting from a decline and shift in product sales mix during the year, and higher general and administration, royalties, and amortization expenses. This was partially offset by an increase in revenues from royalties, licenses, and product development fees, and lower sales and marketing and interest expenses.

Several factors contributed to the net loss of $398,000 in 2004, compared with net income of $442,000 last year. These included the absence of revenues from the sale of royalty interest units (no units were offered for sale), the occurrence of specific, one-time legal and consulting expenses that were unrelated to regular operations, slightly lower product sales (including the reduced volume requirements of a major cosmetic customer) and a shift in product mix resulting in lower margins, higher general and administrative, royalty, and amortization expenses, a loss on the disposal of property and equipment, and a higher Canadian dollar.

The trend for results of operations and financial position over the past three years has occurred primarily due to increases in volume of product sales, increased revenues from royalties, licenses, and product development fees, greater production efficiencies from larger sized orders, and proceeds of various public and private income offerings.

Revenue

$000s	**2004**	2003	Change
Product sales			
Active ingredients	**1,338**	1,680	(20%)
Veterinary therapeutic products	**619**	538	15%
	1,957	2,218	(12%)
Royalties, licences, and product development	**463**	206	125%
Total revenues	**2,420**	2,424	- %

Total revenues, which include product sales and royalties, licenses, and product development fees, were comparable to last year, at $2.4 million. The overall volume of sales increased slightly in 2004 but the rising Canadian dollar negatively impacted recorded revenues.

PRODUCT SALES

Active ingredients sales were impacted by a reduction in Drago-Beta Glucan sales due to the need to refresh and reformulate the product, which has been on the market for a number of years. In addition, volume requirements of a major cosmetic customer were significantly reduced. This decrease was largely offset by significant increases in the sale of Drago-Calm which was launched mid year in 2003. The new beta glucan formula was developed specifically to address markets in Europe and Asia, where the product is subjected to extreme temperatures during transportation. The reformulated product is not cold-sensitive, which will result in reduced shipping costs. Shipping costs had been identified as a barrier to market entry. Anticipation of the refreshed and reformulated beta glucan product resulted in a delay in sales which should begin to recover in 2005 as the product is introduced to customers and potentially incorporated into new or existing product formulations.

The increase in sales from veterinary therapeutic products was due to the introduction of the 'Avena Sativa' line of products through Ceapro's new Canadian distributor, and increased sales volumes to our distributor for Japan. The increase in sales was slightly offset by a change in Ceapro's Australian distributor, and a negative foreign exchange impact resulting from the strengthening Canadian dollar.

ROYALTIES, LICENCES, AND PRODUCT DEVELOPMENT FEES

Royalties, licenses, and product development fees are revenue derived from the addition of new products to existing distribution agreements, activation of new distribution agreements and; scientific and technical services provided to customers for the creation and development of new products. Revenue from royalties, licenses, and product development fees increased by $257,000, due to the activation of a new distribution agreement for Asia, product activation fees for new veterinary therapeutic products for Japan, and the agreement for product development services for new active ingredient products versus last year.

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

Cost of goods sold is comprised of the direct raw materials required for the specific formulation of products, as well as directly related labour, quality control, packaging, and transportation costs. Aside from labour related expenses, the majority of costs are variable in relation to the volume of product produced or shipped.

The gross margin decreased to $934,000, and the gross margin percentage decreased to 48% as a direct result of decrease product sales and an increase in cost of goods sold due to a shift in product sales mix with an increased portion of sales resulting from lower margin products.

GENERAL AND ADMINISTRATION

$000s	**2004**	2003	Change
Salaries and benefits	**265**	267	
Consulting	**56**	55	
Travel, accommodation, meals and entertainment	**30**	31	
Computer systems and support	**24**	2	
Insurance	**99**	80	
Rent	**49**	40	
Board of Directors' compensation	**65**	51	
Investor relations	**97**	78	
Legal	**36**	33	
Other	**112**	120	
Total general and administration expenses	**833**	757	10%

General and administrative expenses (G&A) rose 10% due to several factors. Additional computer systems support costs were incurred for planning and implementation for Ceapro's redeveloped website and upgrading internal computer network systems required to support our business. Higher insurance costs resulted from an increase in insurance coverage to accommodate growth in our business, provide adequate coverage, and an overall premium rate increase versus last year. Increased volume and costs associated with required information reporting and shareholder mailings, and developmental activities undertaken for investor relations communications strategy and materials increased investor relations and stock listing fees. The Board of Directors' compensation increased as a result of changing to a fee-based compensation structure from a stock based compensation structure. During the year all Directors exercised stock options in amounts sufficient to fund the fees payable to them for the year. Ceapro's rent also increased as a direct result of the relocation of the offices to a new space within the Research Transition Facility located on the University of Alberta campus.

SALES AND MARKETING

$000s	**2004**	2003	Change
Salaries and benefits	**82**	133	
Consulting	**33**	16	
Travel, accommodation, meals and entertainment	**9**	80	
Other	**7**	2	
Total sales and marketing expenses	**131**	231	(43%)

Sales and marketing expenses declined 43% largely due to a reduction of time spent on marketing activities by senior management and scientific personnel, lower travel, and related expenses. Throughout the year, senior management and scientific personnel were required to spend significant time renewing, refreshing and reformulating existing products and were not as available to support the sales and marketing efforts. Consulting expenses rose as additional advisory services were required to support Ceapro's international customers on existing and new product sales, and new distribution and licensing agreements.

ROYALTIES

$000s	**2004**	2003	Change
Royalty interest units	**203**	121	
AVAC royalty	**74**	58	
Total royalties expenses	**277**	179	55%

Royalties expense increased 55%. This increase is directly related to an increase in timing of royalties earned by investors who participated in the Royalty Interest and Royalty Income Unit offerings completed throughout 2003, and the higher royalties earned by AVAC Ltd. on eligible product sales due to a shift in product sales mix.

AVAC Ltd. receives royalties equal to 5% of revenues from eligible product sales to a maximum of two times the amount invested. As at December 31, 2004, Royalty investors will receive royalties equal to 8.31% (2003 – 8.31%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products to a maximum of two times the amount invested.

Royalty's expense for 2005 will vary directly with fluctuations in product sales, royalty, license, and product development fees, product sales mix, any new unit offerings or AVAC investments which may be completed.

INTEREST

$000s	**2004**	2003	Change
Interest on convertible debentures and other	**7**	32	
Interest on long term debt	**21**	16	
Total interest expenses	**28**	48	(42%)

Interest expense decreased 42% largely due to the decline in the balances of outstanding convertible debentures comparative to last year. Long term debt increased during the second half of the year due to the financing of the purchase of manufacturing equipment (see Financings, Principal Purposes and Milestones).

Total interest expense for 2005 is anticipated to be significantly higher than 2004, as the debt incurred for equipment financing will be outstanding for the entire year in 2005 versus half of the year in 2004.

AMORTIZATION

Amortization expense increased by $32,000 or 53% as a direct result of the commissioning of new ultra-filtration and reverse-osmosis equipment at the end of the second quarter in 2003, and increased capital expenditures for computer and office, and manufacturing equipment, mostly in the second half of 2004.

Other Income (Expenses)

OTHER INCOME (EXPENSES)

$000s	2004	2003	Change
Sale of royalty interest net of expenses	-	648	
Sale of lawsuit interests in excess of related legal expenses	-	(22)	
Non operational legal and consulting expenses	(124)	(41)	
Settlement of lawsuit	(40)	-	
Foreign exchange gains (losses) and other	46	(11)	
Total other income (expenses)	(118)	574	(121%)

Other income (expenses) increased from income of $574,000 to an expense of $118,000 largely due to a decrease in income from Royalty offerings comparative to last year as no new offerings were completed in 2004; an increase in legal and consulting expenses incurred as a result of specific, one-time costs of new agreement development, partnership negotiations, and due diligence processes that were unrelated to regular operations; and legal fees and a settlement payment of $40,000 for a lawsuit with a former employee. These expenses were slightly offset by a gain from foreign exchange and miscellaneous income comparative to last year.

RESEARCH AND PRODUCT DEVELOPMENT

$000s	2004	2003	Change
Salaries and benefits	70	100	
Product Development – CeaProve	261	205	
Consulting	2	28	
Regulatory	89	39	
Travel, accommodation, meals and entertainment	28	3	
Other	2	4	
Total research and product development expenses	452	379	19%
Less project cost recoveries	(150)	(25)	
Net research and product development expenses	302	354	(15%)

Research and product development expenses increased 19% due to: an increase in the product development and pre market activities for *CeaProve*™; an increase in regulatory expenses for patent maintenance and filings; an increase in travel and related expenses for research and new product development initiated during the year partially offset by a decrease in time spent by senior scientific personnel and consultants on research activities. Expenses in the current year were offset by the initiation of an investment commitment from AVAC Ltd. to support product development and pre-market activities for *CeaProve*™, Ceapro's diabetes screening test, of which $150,000 was earned in the current year.

LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT

Internal computer network systems and hardware upgrades were completed during the first and second quarters of the year to improve the efficiency and security of our systems. In addition, our corporate office was relocated during the third quarter. As a result, a loss on the disposal of obsolete computer and office equipment of $12,000 was incurred for the year.

Fourth Quarter Results

In the fourth quarter, income from operations declined by $89,000 due to a decline in sales revenues, a shift in product sales mix, and higher amortization expenses. This was partially offset by an increase in revenues from royalties, licenses, and product development fees, and lower sales and marketing, and royalty expenses.

These changes combined with a decrease of $78,000 in other expenses (from an expense of $57,000 to income of $21,000), and a $72,000 decrease in research and product development expenses contributed to a overall net loss of $78,000 for the fourth quarter, compared with a net loss of $138,000 last year.

QUARTERLY INFORMATION

The following selected financial information is derived from Ceapro's unaudited quarterly financial statements for each of the last eight quarters, all of which cover periods of three months.

	2004				2003			
$000s except per share data	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues	**469**	414	975	561	590	485	865	484
Net income (loss)	**(78)**	(361)	(71)	113	(138)	331	220	30
Basic income (loss) per share	**(0.002)**	(0.010)	(0.002)	0.003	(0.004)	0.008	0.007	0.001
Diluted income (loss) per share	**(0.002)**	(0.010)	(0.002)	0.003	(0.004)	0.007	0.007	0.001

Ceapro's quarterly results fluctuate primarily due to variations in the timing and proceeds of various public and private income offerings, product sales, and royalty and license fees. In 2003 and 2004, the results are negatively impacted by foreign exchange fluctuations due to the significant strengthening of the Canadian dollar.

Liquidity and Capital Resources

We rely upon revenues generated from the sale of active ingredients and veterinary therapeutic products, the proceeds of public and private offerings of equity securities and debentures, and income offerings to support our operations.

The final performance condition for shares held in escrow, requiring Ceapro's cumulative sales to exceed $10 million, was reached in October 2004, and all of the remaining shares that were held in escrow were released. These shares are already included in the total shares outstanding.

During 2004, 1,466,071 stock options were exercised at various prices. The amount credited to share capital upon exercise of the options is the cash consideration received (if applicable), plus the fair value of the options at the time they were granted (stock-based compensation). Total common shares issued and outstanding as at December 31, 2004 were 35,635,284 (2003 – 34,169,213). In addition, 3,586,115 stock options were outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' equity decreased from $382,000 at December 31, 2003 to $114,000 at December 31, 2004. As at March 31, 2005, there were 36,355,950 (March 31, 2004 34,669,213) common shares issued and outstanding.

During the year, Ceapro's working capital position decreased by $296,000 to a deficiency of $132,000 at December 31, 2004. The working capital position was affected by: cash used to finance the required equity portion of the purchase of property and equipment and increased levels of finished goods inventory; partially offset by an increase in accounts payable and deferred revenue. The 2004 year end inventory was comprised of $72,000 of raw materials, $7,000 of work in process and $266,000 of finished goods. Ceapro continues to pursue additional financings to fund on-going working capital requirements and to secure the financial resources required to support the expected increases in the volume of sales of existing products, the introduction of new products to existing and new markets, and the development of new technology.

Subsequent to year end, Ceapro completed a private placement share offering of 682,666 Units, for aggregate gross proceeds of $204,800. Each Unit was priced at $0.30 and contained one common share of Ceapro and one common share purchase warrant entitling the holder thereof to acquire on additional common share at an exercise price of $0.40 per share until September 30, 2005 and thereafter at a price of $0.60 per common share until September 30, 2006. In addition, subsequent to year end, a director exercised 38,000 stock options at their exercise price of $0.25 per common share.

SOURCES AND USES OF FUNDS

The following table outlines our sources and uses of funds during the past two years.

($000s)	**2004**	2003
Sources of funds		
Funds generated from operations (cash flow)	**(274)**	288
Change in non-cash working capital	**182**	(217)
Share capital issued, net of costs	**111**	355
Change in long-term and callable debt	**418**	(112)
	437	314
Uses of funds		
Purchase of property and equipment	**(542)**	(134)
Decrease in convertible debentures	**(10)**	(15)
Royalties payable	**(37)**	58
	(589)	(91)
Net change in cash	**(152)**	223

To meet future requirements, we intend to raise additional cash through some or all of the following methods: public or private equity or debt financing, income offerings, capital leases, collaborative and licensing agreements, and joint venture or partnership financings. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all. The ability to generate new cash will depend on external factors, many beyond our control, as outlined in the Risks and Uncertainties section. Should sufficient capital not be raised, we may have to delay, reduce the scope of, eliminate, or divest one or more of our discovery, research, or development technology or programs, any of which could impair the value of the business.

FINANCINGS AND MILESTONES

During the year ended December 31, 2004, the company received $227,500 (2003 - $37,500) from the sale of a 9.1% (2003 – 1.5%) interest in the net proceeds, if any, from the SGGF claim ("the claim"). As at December 31, 2004 investors are entitled to 23.8% (2003 - 14.7%) of the net proceeds, if any, from the claim to a maximum of $5,950,000 (2003 - $3,675,000).

During the year ended December 31, 2004, a director agreed to invest (by reimbursement of direct legal costs) up to $206,478 (2003 - $100,000) to purchase an interest in the net proceeds, if any, from the claim. At December 31, 2004, the director and an investor are entitled to 22.3% (2003 - 14%) of the net proceeds, if any, from the claim, to a maximum $5,564,780 (2003 - $3,500,000).

In 2004, Ceapro received an investment commitment from AVAC Ltd. for pre-market activities of *CeaProve™*, Ceapro's diabetes screening test. The funding could potentially total $250,000 upon completion of project objectives as outlined and agreed to by both parties. These funds will be applied as direct reduction of the related expenses when applicable. As at December 31, 2004, $150,000 of this commitment was earned and offset against the related expenses. We are obligated to pay a royalty (to a maximum of two times the amount received) on revenues generated from *CeaProve™* on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. Payments are to be made quarterly in arrears commencing with the quarter ended March 31, 2006. No royalties have been incurred during the current year. Upon completion of the repayment of the financial assistance received, the company will be required to repay $19,750 advanced during the year ended December 31, 2002.

On June 9, 2004, Ceapro completed a financing agreement with Agriculture Financial Services Corporation (AFSC), for the expansion of manufacturing capacity through the purchase of equipment, to a maximum of $500,000. The purchase and installation of equipment was nearly completed during the fourth quarter, with a portion to be finalized in the first quarter of 2005 due to the lead time required for the construction of specific required equipment. As at December 31, 2004, $500,000 of this financing has been received, $64,000 of which is cash restricted for the payment of the equipment under construction at the year end. Principal payments will commence in February 2005. This new equipment alleviates production capacity issues, further enhances processing efficiency, and provides capacity for anticipated volume growth.

Ceapro entered into a significant new veterinary therapeutic products distribution agreement with a key distributor covering new Asian markets (China, including Hong Kong, Taiwan, and South Korea). Market and product preparations are now underway and product sales for these new markets are expected to begin during 2005.

Ceapro also received product activation fees for three new veterinary therapeutic products that were added to the distribution agreement with our Japanese distributor. These three new products will provide complimentary sales opportunities to the existing products and extend the complete line of veterinary therapeutic products offered. Development of these new products has been completed, but are subject to Japanese regulatory requirements. Product sales are anticipated to begin in late 2005 or early 2006.

During the fourth quarter, Ceapro received product development fees of $250,000 for three new active ingredient products, expanding on Ceapro's existing product line, and progressing into extraction from new plant sources. Two of the three product projects were initiated during the quarter, with the third to commence in the first quarter of 2005. As a result, $80,000 of the product development fees has been deferred until 2005.

Related Party Transactions

During 2004, $53,000 of royalties were paid or payable to employees and Directors, which were earned on investments purchased by employees and Directors in previous Royalty offerings. Included in accounts receivable is $206,478 due from a Director which was collected subsequent to year end. In addition, $10,000 was received from employees or Directors for lawsuit investment during the year. These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Legal Proceedings

On May 5, 1998, control of Ceapro's wholly-owned subsidiary, Canamino Inc. ("Canamino") was assumed by Canamino's Class B preferred shareholder, the Saskatchewan Government Growth Fund Ltd. ("SGGF") pursuant to a notice given March 30, 1998 by SFFG due to default of payment of dividends due in October, 1997, and the failure to redeem 500,000 Class B preferred shares as required under the subscription agreement. Control was gained through the assumption of 51% of the voting entitlement attached to the Class A common shares.

On March 22, 2002, Ceapro filed a Statement of Claim (subsequently amended on April 6, 2004) in the Court of Queen's Bench of Saskatchewan against the Government of Saskatchewan, Saskatchewan Government Growth Fund Management Corporation, Gary K. Benson, Janice MacKinnon, and Can-Oat Milling Products Inc. ("SGGF et al."). The action was launched to recover damages with respect to assets claimed to be seized wrongfully as a result of the Defendant's actions in 1998. With the filing in Saskatchewan, Ceapro stayed its action in the Court of Queen's Bench of Alberta. This action was originally filed in December 1999. The claim alleges that Ceapro has suffered damage to goodwill and other property, including its investment in Canamino.

As of December 31, 2004, document production has occurred and Examinations for Discovery of the Defendants has been concluded. The examination of Ceapro's Officer commenced in October 2004, continued in January 2005, and will continue in May 2005. It is expected that the Examination will conclude in the Fall of 2005.

In 2003 Ceapro issued a bond relating to legal costs up to $305,000 which was secured by personal guarantees of the Board of Directors and an Executive Officer. As of April 6, 2005, it is the opinion of Ceapro's Corporate Counsel, that based on the document production to date and examinations which have transpired, the likely outcome of the case is that Ceapro will be successful. At this stage of the litigation it is premature to quantify the damages which may be awarded at the discretion of the Court; therefore, no amount has been accrued in the financial statements with respect to this claim.

On May 14, 2004 Ceapro settled a claim filed on February 28, 2001 by a former employee for $40,000. The settlement amount was recorded in the financial statements in the second quarter, and is included in other income (expenses).

Outlook

On March 31, 2005, we completed a private placement share offering of 682,666 Units, for aggregate gross proceeds of $204,800. We continue to pursue additional financings to fund on-going working capital requirements and to secure the financial resources required to support the expected increases in the volume of sales of existing products, the introduction of new products to existing and new markets, and the development of new technology. Our operating plans will continue to be implemented in a measured and responsible manner and we caution that additional investments required to continue to expand the business and product lines may affect the pace of growth.

While we incurred a loss for the year, we remain positive in our business outlook. In 2004, we completed a number of recent initiatives which should result in increased sales in 2005 and beyond. The loss of a major customer in the third quarter was a temporary set-back. However, active ingredient sales should begin to recover in 2005 as the reformulated beta-glucan product is introduced to customers and potentially incorporated into new or existing product formulations. We have made strides in the development of our diabetes screening product, identifying new applications in the areas of diabetes monitoring and drug dosage determination. The signing of new distribution agreements for veterinary therapeutic products in Asia and Canada, the development of new veterinary therapeutic products and their addition to the Japan distribution agreement all pave the way for increased sales throughout 2005.

We intend to implement our operating plans in a measured and responsible manner. We caution that additional investments may be required to continue to grow the business and product lines and availability of these additional investments may affect the pace of improvement.

MANAGEMENT'S REPORT

To the Shareholders of CEAPRO INC.

The accompanying consolidated financial statements of Ceapro Inc., and all information presented in this annual report, are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgements of Management. Financial information used elsewhere in this annual report is consistant with that in the financial statements.

To further the integrity and objectivity of data in the financial statements, Management of the Company has developed and maintains a system of internal accounting controls, which Management believes will provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee is appointed by the Board, and all of its members are outside and unrelated Directors. The Committee meets periodically with Management and the external auditors, to discuss internal controls over the finacial reporting process and financial reporting issues, to make certain that each party is properly discharging its responsibilites, and to review quarterly reports, the annual report, the annual financial statements, and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial staements for issuance to the shareholders. The Company's auditors have full access to the Audit committee, with and without Management being present.

The financial statements have been audited by the Company's auditors, Stout & Company LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

Sincerely,

Signed "Mark J. Redmond, Ph.D."
President and Chief Executive Officer

Signed "Edward A. Taylor"
Chairman

AUDITORS' REPORT

To the Shareholders of CEAPRO INC.

We have audited the consolidated balance sheets of Ceapro Inc. as at December 31, 2004 and 2003, and the consolidated statements of net (loss) income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
February 18, 2005

Signed "Stout & Company LLP"
Chartered Accountants

CEAPRO INC.
CONSOLIDATED BALANCE SHEETS

	As At December 31	
	2004	2003
ASSETS		
CURRENT ASSETS		
Cash	**$ 96,266**	$ 248,443
Accounts receivable	**375,160**	514,154
Inventories	**345,424**	115,556
Prepaid expenses and deposits	**66,473**	29,971
Deferred charges (note 8 (b))	**50,000**	-
	933,323	908,124
RESTRICTED CASH FOR THE PURCHASE OF PROPERTY AND EQUIPMENT	**64,430**	-
PROPERTY AND EQUIPMENT (note 4)	**720,067**	347,188
	$ 1,717,820	$ 1,255,312
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 713,201**	$ 433,594
Deferred revenue	**80,000**	-
Callable debt (note 6)	**122,296**	159,683
Current portion of convertible debentures (note 5)	**17,510**	9,436
Current portion of long-term debt (note 7)	**28,234**	40,000
Current portion of royalties payable (note 8)	**104,498**	102,029
	1,065,739	744,742
CONVERTIBLE DEBENTURES (note 5)	**-**	17,510
LONG-TERM DEBT (note 7)	**471,766**	4,832
ROYALTIES PAYABLE (note 8)	**66,249**	105,998
	1,603,754	873,082
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 9 (b))	**1,995,443**	1,855,823
CONTRIBUTED SURPLUS (note 9 (c))	**121,997**	132,044
DEFICIT	**(2,003,374)**	(1,605,637)
	114,066	382,230
	$ 1,717,820	$ 1,255,312

See accompanying notes

Approved On Behalf Of The Board

Signed "Edward A. Taylor"
Director

Signed "David B. Harvey"
Director

CEAPRO INC.
CONSOLIDATED STATEMENTS OF NET
(LOSS) INCOME AND DEFICIT

	Years Ended December 31	
	2004	2003
Sales (note 11)	**$ 1,956,961**	$ 2,218,262
Cost of goods sold	**1,022,831**	928,115
Gross margin	**934,130**	1,290,147
Royalties, licenses, and product development fees	**462,758**	206,098
	1,396,888	1,496,245
Expenses		
General and administration	**833,346**	756,716
Sales and marketing	**130,578**	230,701
Royalties	**277,149**	179,475
Interest on convertible debentures and other	**7,383**	32,149
Interest on long-term debt	**21,120**	15,624
Amortization	**91,962**	59,960
	1,361,538	1,274,625
Income from operations	**35,350**	221,620
Other income (expenses)		
Other income (expenses) (note 12)	**(118,211)**	574,162
Research and product development	**(302,487)**	(353,744)
Loss on disposal of property and equipment	**(12,389)**	-
	(433,087)	220,418
Net (loss) income before income taxes	**(397,737)**	442,038
Income taxes (note 13)		
Current	**654,483**	275,437
Reduction as a result of applying non-capital losses carried forward against current year's taxable income	**(654,483)**	(275,437)
NET (LOSS) INCOME FOR THE YEAR	**(397,737)**	442,038
DEFICIT AT BEGINNING OF YEAR	**(1,605,637)**	(2,047,675)
DEFICIT AT END OF YEAR	**$ (2,003,374)**	$ (1,605,637)
Net (loss) income per share (note 14)		
Basic	**$ (0.011)**	$ 0.014
Diluted	**$ (0.011)**	$ 0.013

See accompanying notes

CEAPRO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31 **2004**	2003
OPERATING ACTIVITIES		
Net (loss) income for the year	**$ (397,737)**	$ 442,038
Items not affecting cash		
Amortization	**91,962**	59,960
Loss on disposal of property and equipment	**12,389**	-
Conversion of debentures, loans, and interest to royalty interest	**-**	(304,123)
Stock-based compensation	**19,006**	89,872
	(274,380)	287,747
Changes in non-cash working capital items		
Accounts receivable	**138,994**	(239,286)
Inventories	**(229,868)**	(58,739)
Prepaid expenses and deposits	**(36,502)**	(15,212)
Deferred charges	**(50,000)**	-
Accounts payable and accrued liabilities	**279,607**	96,061
Deferred revenue	**80,000**	-
	182,231	(217,176)
	(92,149)	70,571
INVESTING ACTIVITIES		
Purchase of property and equipment	**(477,230)**	(133,637)
Restricted cash for the purchase of property and equipment	**(64,430)**	-
	(541,660)	(133,637)
FINANCING ACTIVITIES		
Proceeds from issuance of share capital	**111,131**	76,210
Proceeds from exercise of options	**-**	52,860
Proceeds from exercise of warrants	**-**	225,685
Repayment of callable debt	**(37,387)**	(14,530)
Repayment of convertible debentures	**(10,000)**	(15,000)
Proceeds from long-term debt	**500,000**	-
Repayment of long-term debt	**(44,832)**	(97,489)
Increase in royalties payable	**(37,280)**	58,381
	481,632	286,117
Increase (decrease) in cash	**(152,177)**	223,051
CASH AT BEGINNING OF YEAR	**248,443**	25,392
CASH AT END OF YEAR	**$ 96,266**	$ 248,443
Supplementary information:		
Interest paid	**$ 26,300**	$ 55,018
Royalties paid	**$ 312,502**	$ 79,271

See accompanying notes

1. NATURE OF BUSINESS OPERATIONS

Ceapro Inc. (the “company”) was incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange. The company’s primary business activities relate to the marketing and development of various health and wellness products and technology relating to oat extracts.

2. ACCOUNTING POLICIES

(a) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of management estimates relates to amortization of property and equipment, the assumptions used in determining stock based compensation and the interest rate used in determining the equity component of the convertible debentures. Actual results could differ from those estimates.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Ceapro Technology Inc and Ceapro Veterinary Products Inc.

(c) Revenue recognition

Revenue from the sale of health and wellness products is recognized as revenue at the time the products are shipped to customers.

Revenue from the sale of royalty and lawsuit interests, and royalty and license agreements is recorded in accordance with the terms of the applicable agreements.

(d) Inventories

Inventory of raw materials is valued at the lower of cost and replacement cost on a first-in, first-out basis.

Inventory of work-in-progress and finished goods is valued at the lower of cost and net realizable value on an average cost basis.

(e) Property and equipment

Property and equipment are recorded at cost and are amortized over their estimated useful lives as follows:

Manufacturing equipment	20% declining balance
Office equipment	20% declining balance
Computer equipment	30% declining balance

2. ACCOUNTING POLICIES (continued)

(f) Research and product development expenditures

Research costs are expensed when incurred. Product development costs are also expensed when incurred unless they are significant and meet generally accepted criteria for deferral. Costs are reduced by government grants and investment tax credits where applicable.

(g) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year end exchange rates and non-monetary assets at the exchange rates prevailing when the assets were acquired. Foreign currency denominated revenue and expense items are translated at the rate of exchange in effect at the time of the transaction. Foreign currency gains or losses arising on translation are included in income.

(h) Income taxes

Income taxes are accounted for by the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases.

(i) Lease obligations

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

(j) Government assistance

Government assistance is periodically granted to the company under available government incentive programs. Government assistance relating to research and development expenditures is recorded as a reduction of the expenditures when received.

(k) Investment tax credits

Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided there is reasonable assurance that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

(l) Net (loss) income per share

Net (loss) income per share is calculated based on the weighted average number of shares outstanding during the year. Diluted net (loss) income per share reflects the assumed conversion of all dilutive securities using the treasury stock method.

2. ACCOUNTING POLICIES (continued)

(m) Stock based compensation

Stock based compensation of employees, directors, officers and consultants is recorded in accordance with the fair value based method.

3. CHANGE IN ACCOUNTING POLICIES

(a) Impairment of long-lived assets

The company accounts for the impairment of long-lived assets in accordance with CICA 3063 "Impairment of Long-lived Assets". In the event that facts and circumstances indicate that the carrying value of long-lived assets may be impaired, the company performs a recoverability evaluation. If the evaluation indicates that the carrying value of the asset is not recoverable from undiscounted cash flows attributable to the asset, then an impairment loss is measured by comparing the carrying amount of the asset to its fair value. This accounting policy was adopted prospectively effective January 1, 2004 and did not result in any changes to the current year financial statements.

(b) Callable debt

The Canadian Institute of Chartered Accountants has issued an accounting pronouncement concerning the classification of debt (EIC-122) for financial years commencing on or after January 1, 2002. Based on the pronouncement, one of the company's loans payable is classified as a current liability since the lender has the right to demand repayment within one year.

4. PROPERTY AND EQUIPMENT

	2004		
	Cost	**Accumulated Amortization**	**Net Book Value**
Manufacturing equipment	**$ 799,351**	**$ 171,622**	**$ 627,729**
Computer and office equipment	**152,689**	**60,351**	**92,338**
	$ 952,040	**$ 231,973**	**$ 720,067**

	2003		
	Cost	Accumulated Amortization	Net Book Value
Manufacturing equipment	$ 402,804	$ 102,996	$ 299,808
Computer and office equipment	185,537	138,157	47,380
	$ 588,341	$ 241,153	$ 347,188

5. CONVERTIBLE DEBENTURES

	2004 Series 1 to 5	2003 Series 1 to 5
Original face value issued	**$ 30,000**	$ 446,522
Converted to royalty interests	**-**	(234,585)
Converted to common shares	**-**	(166,937)
Repaid	**(10,000)**	(15,000)
Remaining face value	**20,000**	30,000
Equity component	**(2,490)**	(3,054)
	17,510	26,946
Less current portion	**17,510**	9,436
	$ -	$ 17,510

At December 31, ,2004, there is one remaining series of convertible debentures which is unsecured, bears interest at 10%, is due April 23, 2005, and has a conversion rate of $1.00 per common share.

6. CALLABLE DEBT

	2004	2003
Loan, payable $4,006 per month, principal and interest at 7.75%, secured by specific manufacturing equipment (carrying value of $239,847 (2003 - $256,916)) and a general security agreement, due September, 2005.	**$ 122,296**	$ 159,683

7. LONG-TERM DEBT

	2004	2003
Loan, payable $6,161 per month, principal and interest at 8.85%, secured by a general security agreement, due January, 2010.	**$ 500,000**	$ -
Loan, payable $10,000 per quarter, principal only, unsecured, repaid during the year.	**-**	44,832
	500,000	44,832
Less current portion	**28,234**	4,832
	$ 471,766	$ 40,000

Estimated principal payments due in the next five years are as follows:

2005	$ 28,234
2006	33,519
2007	36,608
2008	39,983
2009	43,669
Thereafter	317,987
	$ 500,000

ROYALTIES PAYABLE

	2004	2003
Royalties payable pursuant to financial assistance received (note 8 (a))	**$ 131,777**	$ 158,997
Royalties payable pursuant to royalty interest offering (note 8 (c) and (d))	**38,970**	49,030
Less current portion	**(104,498)**	(102,029)
	$ 66,249	$ 105,998

(a) In the year ended December 31, 1999, the company received financial assistance in the amount of $164,882 for the research and development of new products, patents, and markets. The company is obligated to pay a 5% royalty (to a maximum of two times the financial assistance received) on sales generated from products developed using these funds. Pursuant to an amending agreement the terms of repayment were amended to allow all royalties accrued to December 31, 2003 to be repaid $13,250 per quarter. Royalties incurred subsequent to December 31, 2003 are to be repaid quarterly in arrears which commenced with the quarter ended March 31, 2004.

8. ROYALTIES PAYABLE (continued)

(b) In the year ended December 31, 2004, the company received a commitment for financial assistance totalling $250,000 for pre-market activities of *CeaProve*™ (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. In the year ended December 31, 2004, $100,000 of this commitment has been received and $50,000 of additional pre-market expenditures have been deferred at December 31, 2004. The Company is obligated to pay a royalty (to a maximum of two times the financial assistance received) on sales generated from *CeaProve*™ on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. Payments are to be made quarterly in arrears commencing with the quarter ended March 31, 2005. No royalties have been incurred during the current year. Upon completion of the repayment of the financial assistance received, the company will be required to repay $19,750 advanced during the year ended December 31, 2002.

(c) In the year ended December 31, 2003, the company completed a Royalty Income Unit offering through the terms described in an Offering Memorandum. Each royalty interest has a right to receive royalties equal to 0.00001% from the sale or licensing of the company's active ingredients and animal health products, to a maximum cumulative amount of $2.08 per unit. Proceeds from the offering of $516,347.50 (before related expenses) represent the sale of a 5.163% royalty interest in the company's future sales and licensing of active ingredients and animal health products. Maximum royalties payable are two times the amount invested or $1,032,695.

(d) In the year ended December 31, 2003, the company sold a 1.418% royalty interest in the company's future sales and licensing of active ingredients and animal health products for $141,796. At December 31, 2004, the company has sold a cumulative royalty interest of 3.142% for $314,197. Maximum royalties payable are two times the amount invested or $628,394.

9. SHARE CAPITAL

(a) Authorized:

Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares

(b) Issued - Class A common shares

	2004		2003	
	Number of shares	**Amount**	Number of shares	Amount
Balance at beginning of year	**34,169,213**	**$ 1,855,823**	32,211,108	$ 1,232,105
Changes during the year:				
Exercise of options	**1,466,071**	**140,184**	485,715	73,289
Conversion of debentures	-	-	693,933	125,608
Sale of royalty interest units (note 9(f))	-	-	496,488	129,087
Exercise of warrants (note 9(f))	-	-	433,231	225,685
Decrease in equity component of convertible debentures	-	**(564)**	-	(29,951)
Employment termination agreement	-	-	500,000	100,000
Escrow shares cancelled	-	-	(651,262)	-
	35,635,284	**$ 1,995,443**	34,169,213	$ 1,855,823

(c) Contributed surplus of $121,997 (2003 - $132,044) arose from the recognition of stock based compensation expense relating to the granting of stock options during the years ended December 31, 2000 to 2003. During the year current year contributed surplus increased $19,006 (2003 - $89,872) from the recognition of stock based compensation expense (see note 9(d)). On the exercise of stock options during the year, $29,053 (2003 - $120,429) of contributed surplus was transferred to share capital.

(d) The company has granted stock options to eligible employees, directors, officers, and consultants under stock option plans, that vest over periods ranging from eighteen months to three years, and have a maximum term of five years.

The company accounts for options granted under these plans in accordance with the fair value based method of accounting for stock based compensation. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock and life of the options. The risk-free rate used in 2003 was 4.08%, the expected volatility was 6.76% which was based on prior trading activity of the company's shares, and the expected life of the options was 5 years. The stock based compensation expense recorded during the current year relating to options granted in 2003 was $19,006 (2003 - $89,872). No stock options have been granted in the current year.

9. SHARE CAPITAL (continued)

A summary of the status of the company's stock options at December 31, 2004 and 2003 and changes during the years ending on those dates is as follows:

	2004		2003	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	**5,077,186**	**$ 0.22**	3,611,966	$ 0.19
Granted	**-**	**-**	2,126,600	0.25
Expired	**(25,000)**	**1.00**	(175,665)	0.21
Exercised	**(1,466,071)**	**0.22**	(485,715)	0.16
Outstanding at end of year	**3,586,115**	**0.21**	5,077,186	0.22
Exercisable at end of year	**3,421,115**	**0.21**	3,931,386	0.21

The following table summarizes information about stock options outstanding at December 31, 2004 and 2003:

Exercise Price	Year of Expiration	**2004 Number of Options**	2003 Number of Options
$ 0.25	2008	**2,021,600**	2,126,600
$ 0.17	2007	**825,180**	886,251
$ 0.19	2006	**-**	450,000
$ 0.20	2006	**344,335**	344,335
$ 0.12	2005	**395,000**	495,000
$ 0.25	2004	**-**	750,000
$ 1.00	2004	**-**	25,000
		3,586,115	5,077,186

Subsequent to December 31, 2004, 38,000 Class A common shares were issued upon the exercise of stock options for aggregate proceeds of $9,500. The fair value of the options at the time they were granted of $1,806 will be transferred from contributed surplus to share capital.

(e) During the year ended December 31, 2001 the company and certain senior employees and a former senior employee agreed to convert deferred salaries to stock based compensation. As at December 31, 2004, the agreements expired. During the year ended December 31, 2004 a senior employee and former employee exercised 950,000 stock options (2003 – 126,250) at exercise prices ranging from $0.19 to $0.25 (2003 - $0.19 to $0.20). The fair value of the options at the time they were granted of $17,077 (2003 - $4,372) has been transferred from contributed surplus to share capital.

9. SHARE CAPITAL (continued)

(f) On July 15, 2003 the company completed a Royalty Income Unit offering through the terms described in an Offering Memorandum, which resulted in proceeds of $635,273 (496,488 units at $1.30 per unit, net of related expenses). As a result, 293,115 units ($381,049) were issued for cash consideration and 203,373 units ($264,385) were issued in satisfaction of amounts owing to holders of debentures and other loans. Each unit is comprised of one Class A common share of the company ("common share"), one Class A common share purchase warrant ("warrant"), and one royalty interest ("royalty interest"). Each warrant entitled the holder thereof to acquire one Class A common share at an exercise price of $0.36 per share until August 31, 2003 and thereafter at a price of $0.56 per share until December 31, 2003. Each royalty interest is a right to receive royalties equal to 0.00001% of the proceeds received by the company from the sale or licensing of its active ingredients and animal health products, up to a maximum cumulative amount of $2.08 per unit. The Class A common shares issued upon exercise of the warrants were subject to a hold on trading to July 15, 2004. During the year ended December 31, 2003, 433,231 of the warrants issued were exercised which resulted in proceeds of $225,685. $506,186 (496,488 units at $1.04 per unit) of the proceeds (net of expenses) from this private placement is included in the company's other income and $129,087 (496,488 units at $0.26 per unit) of the proceeds have been credited to share capital for the year ended December 31, 2003

(g) During the year ended December 31, 2003, the company issued 500,000 Class A common shares for nil consideration, in satisfaction of the terms of an employment termination agreement. The fair value of the shares at the time the employment termination agreement was reached of $100,000 was transferred from contributed surplus to share capital.

10. CONTINGENCIES AND COMMITMENTS

(a) On May 5, 1998, control of the company's wholly-owned subsidiary, Canamino Inc. ("Canamino") was assumed by Canamino's Class B preferred shareholder, the Saskatchewan Government Growth Fund Ltd. ("SGGF") pursuant to a notice given March 30, 1998 by SGGF due to default of payment of dividends due in October, 1997, and the failure to redeem 500,000 Class B preferred shares as required under the subscription agreement. Control was gained through the assumption of 51% of the voting entitlement attached to the Class A common shares.

On March 22, 2002, the company filed a statement of claim ("the claim") (subsequently amended on April 6, 2004) with the Court of Queen's Bench of Saskatchewan. With the filing in Saskatchewan, the company stayed its action in the Court of Queen's Bench of Alberta which was originally filed in December 1999.

In 2003, the Company issued a bond relating to legal costs up to $305,000 which was secured by guarantees of the Board of Directors and an Officer of the Company. At December 31, 2004 it is the opinion of the Company's Corporate Counsel that based on the document production to date and examinations which have transpired, the likely outcome of the case is that the Company will be successful. At this stage of the litigation it is premature to quantify the damages which will likely be awarded at the discretion of the Court; therefore no amount has been accrued in these financial statements with respect to this claim.

10. CONTINGENCIES AND COMMITMENTS (continued)

During the year ended December 31, 2004, the company received $227,500 (2003 - $37,500) from the sale of a 9.1% (2003 – 1.5%) interest in the net proceeds, if any, from the claim. As at December 31, 2004 investors are entitled to 23.8% (2003 - 14.7%) of the net proceeds, if any, from the claim to a maximum of $5,950,000 (2003 - $3,675,000).

During the year ended December 31, 2004, a director agreed to invest (by reimbursement of direct legal costs) up to $206,478 (2003 - $100,000) to purchase an interest in the net proceeds, if any, from the claim. At December 31, 2004, the director and an investor are entitled to 22.3% (2003 - 14%) of the net proceeds, if any, from the claim, to a maximum $5,564,780 (2003 - $3,500,000).

(b) On March 1, 2002 the company received notice of a Statement of Claim filed on February 28, 2001 by a former employee. The statement alleged that the company breached certain conditions of contract between the former employee and the company. During the year ended December 31, 2004, the company settled the claim for $40,000. The settlement amount is included in other income (expenses).

(c) In the normal course of operations the company may be subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the company.

(d) Effective June 15, 2004, the company modified its existing lease agreement for its office premises. The lease requires the company to pay an annual rent of $59,164 per year which includes its share of maintenance and operating costs until expiry April 30, 2006.

11. SALES

Substantially all sales are export sales to two distributors of the company's products. The company is therefore economically dependent on those distributors to maintain and expand the volume of product sales to existing and new customers.

12. OTHER INCOME (EXPENSES)

Other income (expenses) is comprised as follows:

	2004	2003
Sale of royalty interests (net of expenses)	$ -	$ 647,983
Sale of lawsuit interests (net of related legal expenses)	-	(21,720)
Non-operational legal and consulting expenses	(123,911)	(40,662)
Settlement of lawsuit (note 10(b))	(40,000)	-
Foreign exchange gains (losses)	23,744	(22,871)
Other	21,956	11,432
	$ (118,211)	$ 574,162

13. INCOME TAXES

(a) Non-capital losses

The company has accumulated non-capital losses carried forward for income tax purposes of approximately $3,726,000 the benefit of which has not been reflected in these consolidated financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and expire as follows:

2005	$ 1,586,000
2006	661,000
2007	683,000
2008	571,000
2010	166,000
2014	59,000
	$ 3,726,000

(b) Capital losses

The company has capital losses of approximately $6,807,000, which can be carried forward indefinitely to offset future capital gains.

13. INCOME TAXES (continued)

(c) Scientific research and experimental development (SR & ED)

The company has an accumulated SR & ED expenditure pool of approximately $1,506,000, which can be carried forward indefinitely to be applied against future taxable income.

The company has accumulated SR & ED investment tax credits of approximately $259,700. These credits may be applied against future federal income taxes payable and expire as follows:

2005	$ 65,800
2006	37,900
2007	119,000
2008	16,000
2009	400
2012	20,600
	$ 259,700

(d) Temporary differences

A future income tax asset reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the company's future income tax assets are as follows:

Deductible temporary differences:	**2004**	2003
Non-capital losses and SR & ED expenditures carried forward	**$ 1,759,000**	$ 2,406,000
Net capital losses carried forward	**1,144,000**	1,153,000
Undepreciated capital cost for tax purposes in excess of net book value	**3,030,000**	2,351,000
Valuation allowance	**(5,933,000)**	(5,910,000)
	$ -	$ -

For consolidated financial statement purposes, no future income tax asset has been recorded at December 31, 2004 and 2003 as it is not more likely than not to be realized.

13. INCOME TAXES (continued)

(e) Income tax rate reconciliation

The company's consolidated income tax position comprises tax benefits and provisions arising from the respective tax positions of its taxable entities. The company's income tax provision differs from that calculated by applying statutory rates for the following reasons:

	2004	2003
Income taxes (recovery) based on federal and provincial statutory income tax rate of 33.87% (2003 – 36.75%)	$ (134,714)	$ 162,449
Tax effect of expenses that are not deductible for income tax purposes	107,245	52,090
Tax effect of current year non-capital losses not recognized	19,982	60,898
Tax effect of gain on sale of technology and licenses to subsidiary	661,970	-
Income tax rate reduction as a result of applying non-capital losses carried forward against current year taxable income	(654,483)	(275,437)
Income tax expense	$ -	$ -

14. BASIC AND DILUTED NET INCOME PER SHARE

The following table outlines the calculation of basic and diluted net income per share:

	2004	2003
Numerator		
Numerator for basic and diluted net income per share:		
Net (loss) income for the year	$ (397,737)	$ 442,038
Denominator		
Denominator for basic net income per share:		
Weighted-average number of shares outstanding during the year	34,764,478	32,657,444
Effect of potentially dilutive securities:		
Stock options	-	2,721,660
Denominator for diluted net income per share:		
Adjusted weighted-average number of shares outstanding during the year	34,764,478	35,379,104
Basic net (loss) income per share	$ (0.018)	$ 0.014
Diluted net (loss) income per share	$ (0.018)	$ 0.013

14. BASIC AND DILUTED LOSS PER SHARE (continued)

The dilutive effect of outstanding stock options on net (loss) income per share is based on the application of the treasury stock method. Under the treasury stock method, the proceeds from the exercise of options is assumed to be used to purchase common shares.

For the year ended December 31, 2004, no options or convertible debentures have been included in the calculation of diluted net loss per share as the result would be anti-dilutive.

For the year ended December 31, 2003, the following were not inciuded in the calculation of diluted net income per share as the exercise price exceeded the average trading value of the shares: 25,000 options for common shares with an exercise price of $1.00 per share and 496,488 warrants for common shares with exercise prices between $0.36 and $0.56 per share. Convertible debentures were not included in the calculation of diluted net income per share as the result would be anti-dilutive.

15. RELATED PARTY TRANSACTIONS

Related party transactions during the years not otherwise disclosed in these consolidated financial statements are as follows:

	2004	2003
Interest expense paid or payable to employees and Directors	**$ -**	$ 1,526
Royalties earned by employees and Directors	**$ 52,985**	$ 39,488
Sale of royalty and lawsuit interests to employees and Directors	**$ 10,000**	$ 125,154
Amounts payable to employees and Directors included in royalties payable	**$ 10,274**	$ 12,926
Amounts receivable from Directors included in accounts receivable	**$ 206,478**	$ 86,035
Reimbursement of legal fee expenses by Directors	**$ 206,478**	$ 203,275

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

16. FINANCIAL INSTRUMENTS

The estimated fair value of cash, accounts receivable and accounts payable and accrued liabilities, callable debt, and current portions of convertible debentures, long-term debt, and royalties payable approximates their carrying value due to their short-term nature.

The fair value of convertible debentures, long-term debt, and royalties payable are estimated to approximate their carrying value using the company's incremental borrowing rate or discounted cash flow analysis for similar types of borrowing arrangements.

The company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates in relation to the resulting accounts receivable and accounts payable and accrued liabilities.

It is management's opinion that the company is not exposed to significant interest or credit risks arising from these financial instruments.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with financial statement presentation adopted for the current year.

Notes

DIRECTORS

Edward Taylor, Chairman
Donald Byers
David Harvey
Donald Oborowsky
John Yewchuk
John Zupancic

EXECUTIVE OFFICER

Mark J. Redmond, Ph.D.
President and
Chief Executive Officer

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Email: info@ceapro.com

REGISTERED OFFICE

2900 Manulife Place
10180 – 101 Street
Edmonton AB T5J 3V5
Canada

AUDITORS

Stout & Company LLP
1900 College Plaza
8215 – 112 Street
Edmonton AB T6G 2C8
Canada

CORPORATE COUNSEL

Fraser Milner Casgrain LLP
2900 Manulife Place
10180 – 101 Street
Edmonton AB T5J 3V5
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SECURITIES COUNSEL

Bryan & Company
2600 Manulife Place
10180 – 101 Street
Edmonton AB T5J 3Y2
Canada

CHARTERED BANK

TD Canada Trust
148 Edmonton Centre
1025 – 101 Street
Edmonton AB T5J 2Y8
Canada

STOCK INFORMATION

Listed on the TSX Venture Stock Exchange
Symbol: CZO

TRANSFER AGENT & REGISTRAR

Olympia Trust Company
460 Sunlife Place
10123 – 99 Street
Edmonton AB T5J 3H1
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Tel: 1.780.496.9713
Fax: 1.780.408.3382

CHANGE OF ADDRESS

Registered Shareholders should notify the Company's Transfer Agent and Registrar at the address set out above.

Beneficial Owners should contact their respective brokerage firm to give notice of a change of address.

FINANCIAL CALENDAR

The Company's year-end is December 31.
The Annual Report is mailed in May.
Quarterly Reports are mailed in May, August, and November.

EQUAL OPPORTUNITY EMPLOYER

Ceapro Inc. is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age or disability.

CEAPRO
Nature Enhancing Life®

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Directors

Edward Taylor, Chairman
Donald Byers
David Harvey
Donald Oborowsky
Mark J. Redmond
John Yewchuk
John Zupancic

Executive Officer

Mark J. Redmond, Ph.D.
President and Chief Executive Officer

Head Office

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